

MEMORANDUM

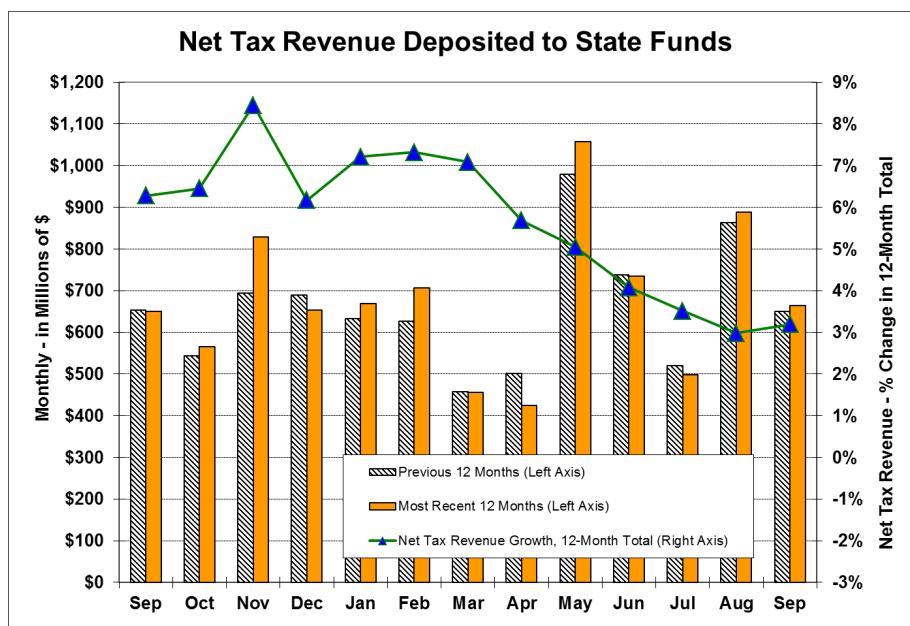
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: October 21, 2016

Twelve-Month Total Net Tax Receipts Through September 30, 2016

The attached spreadsheet presents net tax revenue deposited to state funds for the 12-month period ending September 30, 2016, with comparisons to the previous 12 months. September 2015 to September 2016 one-month comparisons are also presented. The source of the information is the State Accounting System, including non-General Fund accounts. All accounting transactions related to taxes remitted to the state were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Tax revenue growth for the month of September was modestly positive, with sales/use, bank franchise, and gambling taxes all providing revenue growth. Corporate income tax decreased \$14.2 million (21.3%) as gross receipts decreased and corporate tax refunds increased. Going forward, the rate of tax revenue growth may continue to slow as the one-year anniversaries of the fuel tax increase and the opening of the Jefferson casino have passed.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending September 30, 2016, net revenue from all taxes deposited to state funds totaled \$8.148 billion, an increase of \$252.3 million (3.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$74.4 million, 2.1%) – The processing of tax year 2015 income tax returns significantly lowered the annual individual income tax revenue growth rate. One year ago, annual individual income tax growth equaled \$247.4 million and 7.7%.
- Corporate Income Tax (negative \$90.6 million, -20.0%) – Monthly net corporate income tax revenue has been negative for each of the past six months.
- Sales/Use Tax (positive \$100.7 million, 3.9%) – Sales/use tax growth breakdown for the most recent 12 months:
 - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$3.3 million (0.9%).
 - Sales/use tax deposited to other state funds, mainly the Flood Mitigation Fund, decreased \$5.8 million.
 - Sales/use tax deposited to the State General Fund increased \$84.8 million (3.1%).
 - Refunds of General Fund sales/use tax payments, including the payments to local school districts for school infrastructure, decreased \$18.4 million.
- Bank Tax (positive \$10.0 million, 28.1%) – Over the most recent 12 months, tax deposits increased \$8.8 million, while tax refunds decreased \$1.2 million.
- Fuel Tax (positive \$131.5 million, 24.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.6%, and taxable diesel sales decreased 1.3%. The combination of gasoline and diesel taxable fuel gallons increased 0.7% over the period. The majority of the 24.2% tax revenue increase over the last 12 months is due to the Iowa gas tax increase (effective March 1, 2015).
- Gambling Tax (positive \$9.0 million, 3.0%) – According to Racing and Gaming Commission statistics, 12 Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending September 30, 2016. The combined AGR change for Iowa's 19 state-regulated facilities was positive 1.5% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.443 billion, an amount that is 1.8% below the annual AGR peak (December 2012).
- Insurance Premium Tax (positive \$8.6 million, 7.8%)
- Real Estate Transfer Tax (positive \$2.7 million, 13.7%)
- Cigarette and Tobacco Tax (positive \$5.4 million, 2.4%)

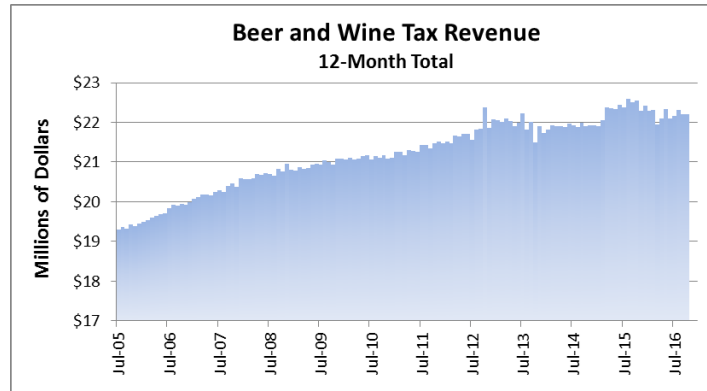
Tax Spotlight — Beer and Wine Tax

Beer and wine sales in Iowa are taxed under [Iowa Code chapter 123](#). The Iowa beer tax was first imposed in 1933 by the enactment of HF 587 (Beer and Malt Liquors Act) at a rate of \$0.04 per gallon. The current beer tax rate of \$0.19 per gallon went into effect July 1, 1986, with enactment of HF 2484 (Government Appropriations Act of 1986). The Iowa wine tax was first imposed with the enactment of SF 395 (Sales and Local Option Tax and Wine Sales Act of 1985) at a rate of \$1.50 per gallon. The rate was increased to its current level of \$1.75 per gallon in 1986 (HF 2484). The wine gallonage tax was expanded to include sales of wine shipped directly to consumers (not for resale) with enactment of HF 2531 (FY 2011 Standing Appropriations Act of 2010).

Revenue generated from the tax on beer is deposited in the State General Fund. Tax revenue generated from the sale of wine produced out-of-state is deposited in the Liquor Control Fund administered by the Iowa Alcoholic Beverages Division of the Iowa Department of Commerce. Tax revenue generated from the sale of wine produced in Iowa is deposited in the Wine

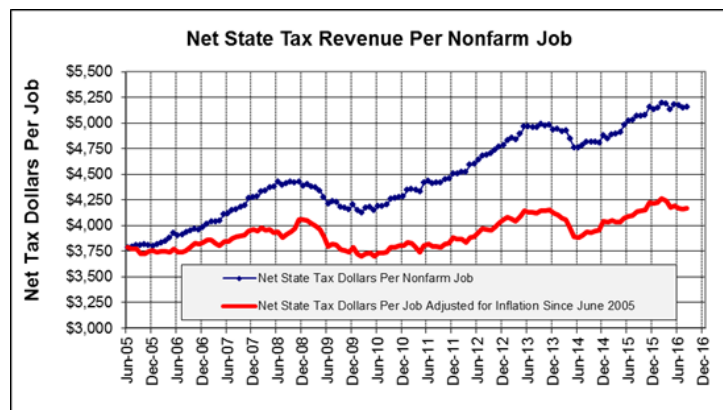
Gallone Tax Fund under control of the Iowa Economic Development Authority to be used for the promotion of native Iowa wine and beer.

The state does not have a special tax for distilled spirits. Instead, the Alcoholic Beverages Division operates a distilled spirit wholesale distribution system and the state generates fee revenue through a wholesale price mark-up system established in 1987 (HF 2484). Prior to the wholesale system, the state operated retail liquor stores. The original wholesale mark-up rate of 60.0% was reduced to 50.0% in April 1987. Revenue generated through the mark-up system is deposited in the Liquor Control Fund as fee revenue. Excess revenue from that Fund is transferred to the State General Fund on a monthly basis.

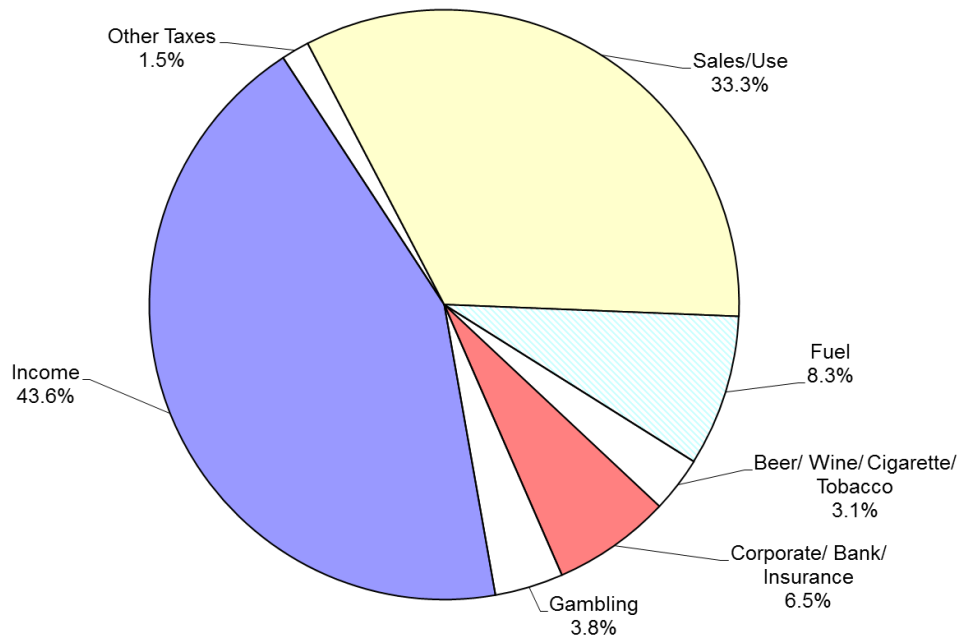


Tax Revenue and Employment

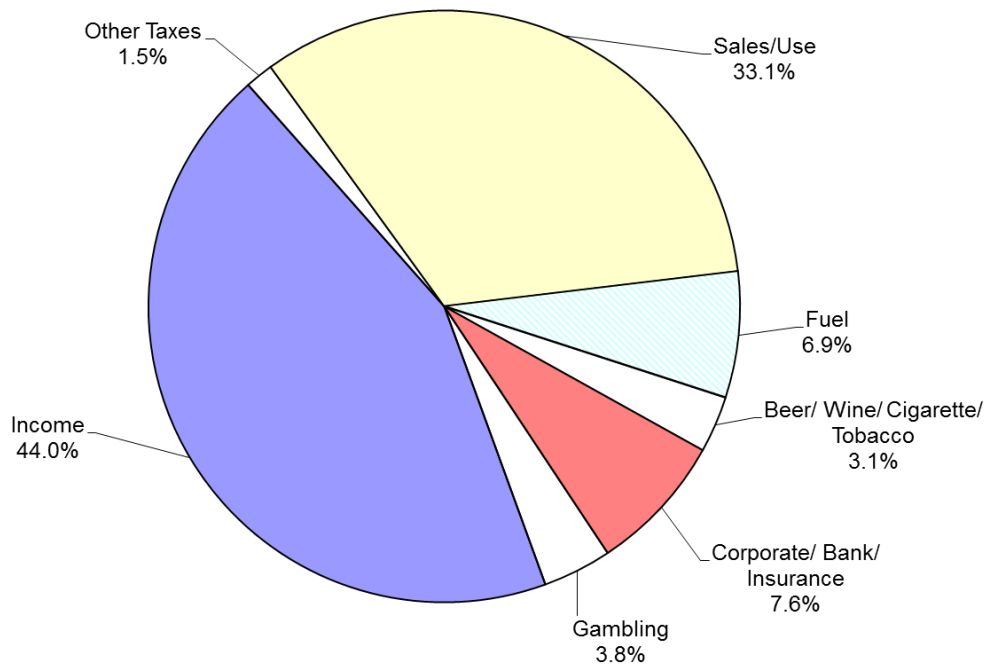
The average reading for Iowa nonfarm employment over the 12 months ending August 2016 is 1,576,800, and net state tax receipts over the same 12 months totaled \$8.134 billion, or \$5,159 per nonfarm job. This is \$1,374 higher than the per-job average for the 12 months ending July 2005. The blue line on the following chart depicts the annual tax revenue collected by the state per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$381 since June 2005, and the remainder of the \$1,374 increase (\$993) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending September 2016
Net Revenue = \$8.145 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending September 2015
Net Revenue = \$7.895 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of September 2015	Month of September 2016	September \$ Change	September % Change
Banking	\$ 35.6	\$ 45.6	\$ 10.0	28.1%	\$ 5.8	\$ 9.9	\$ 4.1	70.7%
Beer & Wine	22.6	22.2	- 0.4	-1.8%	2.0	2.0	0.0	0.0%
Cigarette & Tobacco	221.3	226.7	5.4	2.4%	14.2	17.3	3.1	21.8%
Corporate Income	454.0	363.4	- 90.6	-20.0%	66.7	52.5	- 14.2	-21.3%
Fuel	543.9	675.4	131.5	24.2%	54.6	52.2	- 2.4	-4.4%
Gambling	297.1	306.1	9.0	3.0%	24.1	29.2	5.1	21.2%
Individual Income	3,475.9	3,550.3	74.4	2.1%	291.5	292.8	1.3	0.4%
Inheritance	85.2	87.5	2.3	2.7%	5.7	6.7	1.0	17.5%
Insurance	110.5	119.1	8.6	7.8%	0.0	- 1.3	- 1.3	--
Other Taxes	16.6	15.3	- 1.3	-7.8%	2.3	2.5	0.2	8.7%
Real Estate Transfer	19.7	22.4	2.7	13.7%	1.5	3.1	1.6	106.7%
Sales/Use	2,612.8	2,713.5	100.7	3.9%	182.2	197.1	14.9	8.2%
Total Net Taxes	\$ 7,895.2	\$ 8,147.5	\$ 252.3	3.2%	\$ 650.6	\$ 664.0	\$ 13.4	2.1%
Gross Tax & Refunds								
Gross Tax	\$ 9,380.0	\$ 9,739.1	\$ 359.1	3.8%	\$ 726.5	\$ 765.7	\$ 39.2	5.4%
Tax Refunds	\$ - 1,484.8	\$ - 1,591.7	\$ - 106.9	7.2%	\$ - 75.8	\$ - 101.6	\$ - 25.8	34.0%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,404.1	\$ 6,513.4	\$ 109.3	1.7%	\$ 511.2	\$ 525.4	\$ 14.2	2.8%
Road Use Tax Fund	\$ 913.6	\$ 1,045.8	\$ 132.2	14.5%	\$ 91.4	\$ 84.6	\$ - 6.8	-7.4%
Non-GF Gambling	\$ 295.5	\$ 304.4	\$ 8.9	3.0%	\$ 24.0	\$ 29.0	\$ 5.0	20.8%
Other State Funds	\$ 282.0	\$ 283.9	\$ 1.9	0.7%	\$ 24.2	\$ 25.0	\$ 0.8	3.3%
Local Option Taxes *	\$ 937.2	\$ 953.5	\$ 16.3	1.7%	\$ 75.3	\$ 69.6	\$ - 5.7	-7.6%

* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is also included in this line. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund and the Liquor Control Fund. A small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. For FY 2012 and FY 2013, the first \$106.0 million of revenue from cigarette and tobacco taxes was deposited in the Health Care Trust Fund and the remainder was deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue was deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several state funds. Beginning with FY 2014, the state no longer deposits gambling tax revenue in the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback funds, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Day Care Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a state fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include the brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money, and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the state. Of the state's portion of the tax revenue, 65.0% is deposited to the State General Fund and the remainder is deposited to the Housing Trust Fund (30.0%) and the Shelter Assistance Fund (5.0%).

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax, and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from state revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of state sales/use tax revenue was deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% statewide tax, and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July 2014.

Report Database: The database for this report is the State Accounting System. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.